BLOCK 3
BUDGET

UNIT 5 CONCEPT AND SIGNIFICANCE OF BUDGET AND BUDGET CYCLE IN INDIA*

Structure

5.0 OBJECTIVES

After reading this Unit, you should be able to:

- Understand the meaning and significance of public budget; and
- Explain the steps involved in the budget cycle.

5.1 INTRODUCTION

Government functions, policies and programmes will fail and carry no meaning without adequate budgetary provision. And the basis for government budget is public finance, or revenues raised by government which are then allocated to fund public policies and programmes.

A general or special fund, therefore, comes from the public budget which is composed of revenues raised by government through its taxation rate (goods and services) and borrowing decisions. The principal justification for this arrangement

* Contributed by Dr. R.K. Sapru, Professor of Public Administration (Retired), Panjab University, Chandigarh

is that funds allocated through budget for specified government functions and policies, which are so vital that they must be protected by law from political vagaries.

5.2 CONCEPT OF BUDGET

The term 'budget' is derived from a French word, 'Bougette', which means a leather bag or wallet from which the Chancellor of the Exchequer used to take out his papers about government's financial schemes for the ensuing year for laying before the House of Commons. So when he set off to place his financial plans before the House, he used to open his budget, that is, the bag. The term was used in its present sense for the first time in1733 in the British parliament. Since then, the term has been used for a financial scheme or statement of annual income and expenditure of the government.

A budget is a work plan that gives direction to the implementation of policies and programmes. The Institute of Cost and Works Accountants, describes the term 'budget' as, "a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that period for the purpose of attaining a given objective". Briefly, the budget is an authentic statement of expected income and expenditure for a specific period. It is mainly instituted as (i) a plan of income and expenditure; (ii) a reflection of public policy, and (iii) a mechanism for planning, controlling, managing and evaluating the activities.

According to Wildavsky, a budget is "a series of goals with price tags attached." Dimock and Dimock define the budget as "a financial plan summarising the financial experience of the past stating a current plan and projecting it over a specified period of time in future". If a government wants to achieve certain objectives, the government may issue a policy statement stressing the need of realising these objectives. But these objectives cannot be achieved without the provision of adequate funds in the budget. But it is not necessary that all policies are reflected in the budget. As one United Nations publication points out "….while the national budget is an important policy document, it does not necessarily present a full picture of the national policies of a Government and may not be consistent with the national development plan" (UN,1975).

5.3 SIGNIFICANCE OF BUDGET

In all democratic countries, the budget has been a dominant policy document. It is not only the main instrument for implementing government activities but also used extensively to regulate and influence economic and social activities in the private sector of mixed economies. A budget is a work plan and an evaluation tool that gives direction to the implementation of public policies and programmes. Hence is the need of budget to carry out multifarious activities of the government. Budget is the vital aspect of financial administration and since it operates within the limits of legislative authorisation, the executive is responsible for legal and financial accountability to the legislature. Admittedly budget has commanded a dominant position in the scheme of governance. The budget system today not only provides the legislature to have an over-all control over the revenue collected and expenditure incurred by the executive, but it also becomes an important means for evaluating the progress of various government projects and schemes.

A budget gives the direction in which government intends to go in the near future, usually in the next fiscal year. Emphasising the need and importance of budget, Bridges (1964) says, “Whatever else a Government may or may not do, one thing it cannot avoid doing each year if it is to continue to exist, and that is to obtain the authority of Parliament to raise revenue to meet expenditure which is done by the Budget and the accompanying Finance Bill”.

Recognising the important place of budgeting in administration, a Study Group of the Royal Institute of Public Administration (1959) observes: “In all organisations, however, budgeting can assist management at every level in several ways. In the first place, it helps in making reviewing policy, by encouraging comprehensive forward-looking planning and decision making and providing both the information and the occasions for regular reviews of plans and prospects for the future. Secondly, it supplies yardsticks against which the actual results can be judged, thus helping to assess their significance and results can be judged, thus helping to assess their significance and decide what action may be called for in consequence. A budget can be used in both these ways, whether it relates to income and expenditure on revenue account, capital expenditure, or finance and cash transactions”.

In brief, budget has acquired great dimension not only from the constitutional point of view to assert legislative control over executive, but also administratively it has become an important aid to management, both for policy-making and for keeping check on its execution. Indeed, it is the heart of administrative management. It also serves as a powerful tool of coordination, and negatively, an effective device of eliminating wasteful financial expenditure.

5.4 FUNCTIONS OF MAJOR INSTITUTIONS IN BUDGETARY PROCESS

The budgetary process in India is indeed a difficult exercise. It involves a variety of institutions at various levels. What follows is a brief description of the major actors or agencies involved in the budgetary process at the union level.

5.4.1 Parliament

Parliament in India is the supreme legislative body involved in the budgetary process. Parliamentary approval for the passage of budget is a must. In consonance with the norms of parliamentary democracy, the Parliament is entrusted with the primary responsibility of acting as the custodian of public money in the country. Under Article 112 of the Constitution, the President shall cause to be laid before both the Houses of Parliament the ‘annual financial statement’. This Annual Financial Statement is the main budget document. It may be noted that word ‘budget’ does not figure in the Indian Constitution. Further, of the two Houses of Parliament, it is the lower House or the Lok Sabha that holds absolute control over the financial matters, including the union budget.

5.4.2 Political Executive

In India, the Executive has an equally an important role to play in the budgetary process. The union Finance Minister pilots the budget in the parliament. The Ministry of Finance is the core unit of the Executive, entrusted with the task of managing the operational dynamics of the budget. The Ministry of Finance (MOF) is the nodal agency of the budgetary process. Right from estimating the final figures of the revenues and expenditure of the government for presentation before the Parliament, the Ministry is vested with the task of ultimately ensuring that the finances of the country are managed with proper care.

5.4.3 Audit Department

Another important institution which is involved in the budgetary process is the office of the Comptroller and Auditor General (CAG). Visualised under the provisions of Article 148 of the Constitution, the office of CAG conducts an audit on behalf of the Parliament to investigate and report on the fidelity, legality and efficiency of all the financial transactions carried out by government departments. Over the past few years, the CAG has emerged as one of the most stringent checks on the financial impropriety of the government, though critics have argued against such a role of audit in our country.

5.4.4 Parliamentary Committees

Finally, the Parliamentary Committees on Estimates, Public Accounts and Public Undertaking as well as 24 departmental Standing Committees play an important role in the budgetary processes of the country. Important roles are assigned to these committees to exercise control over the finances of the government or its public undertakings. These committees are empowered to perform these tasks by parliament due to paucity of time or lack of expertise with the latter. It may be mentioned here that the role of these Committees is distinct in relation to the budgetary process. The Estimates Committee, for instance, suggests economies in estimates of expenditures of various government departments in order to make them more realistic and economical. The Public Accounts Committee carries out a post-mortem of the accounts in the light of the audit report of the CAG. In the process, these committees bring out financial irregularities, if any, and suggest remedial measures for the same.

In brief these institutions/organisations noted above are playing a significant role in the budgetary process in India. Each year, the budget follows a cycle that includes: 1. preparation of the budget (which entails deciding where tax money will be expended); 2. budget approval; 3. budget implementation; and finally 4. auditing (which is intended to make sure that tax money allocated to various government departments is spent properly).

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) What do you mean by the term Budget? Discuss the significance and role of Budget.

....

....

....

....

2) Discuss the process of budget making in India.

....

....

....

....

....

5.5 PREPARATION OF ANNUAL BUDGET

Budgetary formulation is the initial step in the preparation of the budget estimates. It is generally considered a useful tool for providing a meaningful grouping of the activities of the government. Besides, it serves the purpose of presenting a maze of data in a simple and systematic way which enables the parliamentarians to understand the details of the budget. Budgetary classification is particularly helpful in the appreciation of the performance budgeting method. Under the budgetary classification government activities are categorised into three broad groups namely (i) General or Regulatory Services such as revenue, defence, police, general administration, etc. (ii) social and community services such as education, health, housing, etc. and (iii) economic services such as foreign trade, industry, transport, agriculture, etc.

After budget classification in terms of the broad categories such as general, social and economic services, they are further classified into units and sub-units to enable the measurement or performance of related activities. The formation of the budget estimates follows the cycle of the financial year, from 1st April to 31st March. The Union Budget of India (including the Rail Budget) is presented each year on the first working day of February by the union Finance Minister of India in Parliament. However, owing to cumbersome procedures involved in the final formation of the budget estimates, the process for the same begins around the month of September-October of the preceding year. Initiating the process, the Ministry of Finance issues a circular to various ministries and departments inviting their estimates for the coming year. On the basis of instructions from top nodal agency, various administrative agencies prepare their estimates. These sectional estimates are then examined and scrutinised by Departmental Heads and then passed on to officers of the Finance Department/Ministry of Finance in November-December. By the 3rd week of January, the Ministry of Finance is able to prepare a consolidated statement of revenues and expenditures, known as the 'Annual Financial Statement'. This statement is called the budget document. It is generally presented in the following format:

1) actual figures of the previous three financial years;
2) the sanctioned budget estimates for the current financial year;
3) revised estimates of the current financial year;
4) proposed estimates for the next financial year, with explanatory notes for any increase or decrease in estimates; and
5) actuals of the current financial year available at the time of preparation of the estimates and actuals for the corresponding period of the previous financial year.

The estimates of the 'Annual Budget' for the ensuing financial year are proposed on the basis of: (i) the revised estimates of the current year; (ii) the 12 months actuals of the last and previous years; (iii) any recognisable regularity in past year's figures; and (iv)any special circumstances causing variations.

The Annual Financial Statement or the main budget document is prepared by the Ministry of Finance shows the receipts and payments of the government under three parts in which government accounts are kept: (i) Consolidated Fund, (ii) Contingency Fund, and (iii) Public Accounts.

All revenues received by government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the Consolidated Fund. All expenditure of government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from Parliament. Occasions may arise when government may have to meet urgent unforeseen expenditure pending authorisation from Parliament.

The Contingency Fund is an imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is subsequently recouped to the Fund. The corpus of the Fund authorised by the Parliament, at present, is Rs. 500 crore.

Besides, these two funds under which government accounts are kept, there is Public Account in which moneys are received and disbursed. In respect of Public Account, government acts more as a banker, for transactions such as those relating to provident funds, small savings collections and other deposits. Parliamentary authorisation for such payments from the Public Account is, therefore, not required.

In a few cases, a part of the revenue of government is set apart in separate funds for expenditure on specific activities like road development, primary education, public health, etc. These amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on the specific items.

The Budget has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises (i) Revenue budget, and (ii) Capital budget.

5.5.1 Scrutiny of Budget

Scrutiny of budget is of utmost importance for it affects the economy of the country. This examination and scrutiny of the budgetary proposals takes place at two levels: administrative and legislative. Administrative scrutiny refers to the scrutiny carried out by the higher level of a particular department as well as the Ministry of Finance. The proposal is made part of the departmental budget when it is approved by the head of the department. Further, it is found that if the proposal involves construction works, it needs to be submitted for scrutiny to the Public Works Department which may then give technical approval to the proposal. As the final step in administrative scrutiny, all the departmental budgets, particularly the 'new items' thereof, are minutely scrutinised by the Ministry of Finance and the latter's decision carries considerable weight.

Legislative scrutiny has its own function and significance. It begins after the budget is presented to the Parliament. With the setting up of 24 departmental-related Standing Committees in 1993, legislative scrutiny of the budget has become more focused and sharp. In the end, the debates on budgetary proposals culminate in getting the parliamentary approval.

5.5.2 Principles of Budget-making

The formation of the budget is guided by certain basic principles must be followed. The more important of these principles are as follows:

1) The budget must be a balanced one: Generally speaking the estimated expenditure should not exceed estimated income. When expenditure exceeds estimated income, it is called a deficit budget. Though deficit budgeting is risky in that it can lead to inflation. However, up to a point it is acceptable because it helps fight or downturn in economic activity.

2) Estimates should be on a cash basis: This is how it is in India, Britain and U.S.A. This kind of cash budgeting has the advantage that the final preparation of accounts of a year can be done soon after its close, though it may not reveal the true financial picture for the year. By deferring payments that are due in that year, a surplus instead of a deficit will be shown in the present year's budget, which is incorrect. In contrast to the cash budget, there is the revenue budget which corrects this deficit, but it results in long delays in preparation and presentation of accounts and this makes the exercise of financial control difficult.

3) Budget must distinguish between recurring expenditure and income on the one hand and capital payments and receipts on the other. In other words, there must be a distinction between current or revenue budget and capital budget. Each part must be balanced separately and the overall surplus or deficit is ascertained by taking both into account.

4) Budget should be gross and not net. All the transactions of income and expenditure must be clearly and fully shown and not merely as the resultant net position. Neglect of this rule can adversely affect the established financial procedure and result in laxity of control, incomplete accounts, etc.

5) Budget estimates should be as exact as possible: Gross over-estimating leads to heavy taxation. Gross under-estimating can throw the whole budget out of gear when it comes to implementation. Close estimation is usually done by taking the average figures of previous three years under different heads and making the necessary adjustments. Itemised estimates are an aid to close budgeting. Generally, one is liberal in estimating expenditure and conservative in estimating income.

6) The formal classification used in the budget should correspond to the format of accounts, that is, budget heads should be the same as that of accounts. This facilitates budget preparation, budgetary control and maintenance of accounts.

7) The rule of lapse: It is the last budgetary principle. No part of the grant that is unspent in the financial year can be carried forward to the next financial year. If this rule is not applied, departments would live on accumulated and unspent balances and would, to that extent, be independent of legislative control.

5.6 ENACTMENT OF BUDGETARY PROPOSALS

A very crucial stage in the budgetary process is approval of the budget by Parliament.

In this context, it is important to bear in mind the powers of the Indian Parliament in budgetary matters, covered in Articles from 112 to 117 of the Constitution. Briefly stated, they are the following:

1) No demand for a grant shall be made except on the recommendation of the President.
2) Any proposal dealing with expenditure must be on the recommendation of the President.
3) Parliament can reduce or abolish a tax, but not increase it.
4) Certain items of expenditure are 'charged' on the Consolidated Fund of India, like the salaries and allowances of the President, Judges of the Supreme Court, Chairman and Deputy Chairman of Rajya Sabha, Speaker, Deputy Speaker, Comptroller & Auditor-General of India and a few others. The 'charged' expenditure is subject to discussion though not submitted to the vote of Parliament.
5) Parliament cannot amend the Appropriation Bill in such a way as to vary the amount, be it charged expenditure or otherwise, or alter the destination of any grant.
6) In financial matters, the powers of the Rajya Sabha are restricted. It must accept the Finance Bill with or without any recommendations within 14 days. The Lok Sabha may accept or reject any or all of these recommendations. In any case, the Finance Bill does not go again to the Upper House but directly to the President for his assent.

Let us now review the various stages in the budgetary process in the parliament.

1) Presentation to the Legislature: The Finance Minister presents the budget to the Lok Sabha usually on the first working day of February. He does so with the budget speech which is eagerly awaited by business circles as it gives first indications of tax proposals and the economic and financial policy of the Government. The budget is also placed before the Upper House, though its financial powers are extremely limited.

2) General discussion: It takes place a few days after the presentation of the budget. It is spread over two or three days. The discussion in each House is confined to general principles or policy underlying the budget. No details are discussed; there is no voting, nor are cut motions allowed. The general discussion serves the purpose of enabling an overview of the programmes of government and particularly on the 'charged' expenditure. At the end of the debate the Finance Minister replies, reacting to the points raised by the members.

3) Voting of demands for grants: After the general discussion, the Lower House takes up voting of demands. This voting of the expenditure is part of the budget and is the exclusive privilege of the Lower House. The demands are

presented ministry-wise and each demand is subject to a vote. At this stage there is a lot of discussion of the details. The opposition can subject the proposals to severe criticism. Members can move cut motions, which are of three kinds namely- disapproval policy cut, economy cut and token cut. The purpose behind the cuts is to criticise the specific departments of government and expose maladministration. When put to vote they are generally defeated because government has a majority to support it. In a sense, the cut motions have symbolic value only.

In about 30 to 40 days the Lok Sabha must complete the voting of demands. The time limit for each demand as well as for the entire expenditure part of the budget is fixed by the Speaker in consultation with the leader of the House. The schedule is carefully observed. On the last day, all the remaining demands are subject to vote though the discussion may not be adequate. A demand becomes a grant after it has been duly voted.

5.6.1 Demands for Grants

The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants in pursuance of Article 113 of the Constitution. Generally, one Demand for Grant is presented in respect of each Ministry or Department. However, in respect of large Ministries or Departments more than one Demand is presented. Each Demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants to state and union territory Governments and also loans and advances relating to the service. In regard to Union Territories without legislature, a separate Demand is presented for each one of them. It may be noted that Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement.

5.6.2 Finance Bill

At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfilment of the requirement of Article 110(1) (a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. It is accompanied by a Memorandum explaining the provisions included in it.

5.6.3 Appropriation Bills

After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the legal sanction by Parliament.

5.7 LEGISLATIVE APPROVAL OF BUDGET

After the Appropriation Bill is passed in the Lok Sabha, the Speaker certifies it as a money Bill and sends it to the Rajya Sabha. Here the bill is discussed and returned to the Lower House, with or without recommendations. The Lok Sabha gives the Appropriation Bill its final shape and then sends it to the President for his assent, which is given as a matter of course. Thus the Appropriation Bill becomes the Appropriation Act.

Before it becomes a law, it is discussed in the Legislature in two parts. First, the expenditure side is discussed and then the revenues are discussed. All legislatures make extensive use of Committees for the examination of estimates. In the legislature, two separate Bills are passed, one is the Appropriation Bill which is a legal authorisation to spend money, the second, Revenue Bill, which gives authority to impose and collect taxes. After these two bills are passed by the Legislature, the Political Executive seeks to implement it.

5.8 IMPLEMENTATION OF BUDGET

Implementation of budget takes place from 1 April of each year. The nodal agency, the Ministry of Finance, issues advisories to the spending ministries intimating the quantum of allocated funds to them. Thereafter, the heads of the departments, allocate money to the numerous disbursing officers of the departments. However, it may be noted that the disbursing officers are not authorised to spend moneys beyond certain limits. To go beyond limits, they require sanction from the requisite authorities. At the same time, it is also mandatory for each spending department to keep records of payments and receipts in the prescribed method of accounting.

Budget Accounting and Audit

The Comptroller and Auditor General of India (CAG) is a constitutional authority. Accordingly, he "shall perform such duties and exercise such powers in relation to the accounts of the Union and of the states" as may be prescribed by Parliament. In this way he is the custodian of the accounting and audit systems in the country.

The auditing part of the budget cycle is designed to make sure that public money (collected through taxes, etc.) is spent appropriately. In brief, audit is an independent review authority with the objective that public organisations or programmes spend money in accordance with law and efficiently. In other words, the office of the CAG is responsible for budget audits. An audit is primarily seen as an extension of legislative control and accountability over the financial administration of the country. The audit in our country is more focused on expenditures.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) Discuss the role of union Finance Ministry and parliament in the enactment of budget.

....

....

....

....

2) Explain the role of parliamentary financial committees.

....

....

....

....

....

5.9 CONCLUSION

The Budget for 2017-18 contained three major reforms. First, the presentation of the Budget was advanced to 1st February to enable the parliament to avoid a Vote on Account and pass a single Appropriation Bill for 2017-18, before the close of the current financial year. This enabled the ministries and departments to operationalise all schemes and projects, including the new schemes, right from the commencement of the next financial year. They would be able to fully utilise the available working season before the onset of the monsoon. Second, the merger of the Railways Budget with the General Budget from 2017-18 onwards was a historic step. The colonial practice prevalent since 1924 was discontinued. This decision brought the Railways to the centre stage of Government's fiscal policy and facilitated multi- modal transport planning between railways, highways and inland waterways. The functional autonomy of Railways will, however, continue. Third, the plan and non-plan classification of expenditure has also been done away with effect from 2017-18. This will give a holistic view of allocations for sectors and ministries and would facilitate optimal allocation of resources.

5.10 GLOSSARY

Budget: It is an authentic legal statement of income and expenditure for a specific period.

Cycle: A series of events that are regularly repeated in the same order.

Dissolution: the context is dissolution of the House, when the House of People is dissolved all matters pending before the House lapse.

Finance Bill: A Finance Bill may be said to be any Bill which relates to revenue or expenditure, over which the Upper House has minimal jurisdication.

Transfer payments: Transfers of money from the government to individual recipients, such as farm subsidies, disaster relief, etc.

5.11 REFERENCES

Bridges, L. (1964). *The Treasury.* London: Allen and Unwin.

Dimock, M.E., Dimock, G. & Koeing, L.W. (1969). *Public Administration.* New York: Holt Rinehart.

Mahajan, S.K. & Mahajan, A.P. (2014). *Financial Administration in India.* New Delhi, India: PHI Learnuing.

Prasad, K. (2006). *Indian Administration.* New Delhi, India: Pearson.

Royal Institute of Public Administration Study Group. (1959). *Budgeting in Public Authorities.* London: Allen & Unwin.

Thavaraj, M.J.K. (2009). *Financial Administration in India.* New Delhi, India: Sultan Chand.

United Nations. (1975). *Development Administration: Current Approaches and Trends in Public Administration for National Development.* New York: Department of Economic and Social Affairs.

Wildavsky, A. (1974). *The Politics of the Budgetary Process.* Boston: Little Brown.

5.12 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:
   - Definition of Budget
   - Significance as a tool of financial administration
   - An instrument of legislative control over public finances
2) Your Answer should include the following:
   - Preparation of the budget
   - Budget approval
   - Budget implementation
   - Audit of public accounts

Check Your Progress Exercise 2

1) Your Answer should include the following:
   - Presentation of Budget
   - Scrutiny of Budget
   - Discussion in parliament
   - Legislative approval of budget
2) Your Answer should include the following:
   - Names of the three committees
   - Role of each of the committee
   - Significance of parliamentary committees

UNIT 6 BUDGETING: TYPES AND APPROACHES*

Structure

6.0 OBJECTIVES

After reading this Unit, you should be able to:

- Understand different types of budgeting;
- Examine competing approaches and theories as to how government resources should be allocated; and
- Discuss limitations of rationalist approach in budgetary process.

6.1 INTRODUCTION

Ever since public budgeting acquired importance, the government has been experimenting with adoption of various techniques and approaches of budgeting to respond to purposes for which money is collected and spent. Today there is widespread frustration with the budget process. It is criticised as confusing, time-consuming, burdensome, and repetitive. In addition, the results are often disappointing to both budgeters and observers. Although frustration is nearly universal (you cannot please everyone), there is less consensus on what specific changes would be good. Surely many concur with McCaffery (1987), who points out that "history teaches us that techniques of budgeting are not as important as the purpose for which the money is spent".

* Contributed by Dr. R.K. Sapru, Professor of Public Administration (Retired), Panjab University, Chandigarh

6.2 DIFFERENT TYPES OF BUDGETING

Budget and budgetary process in government is probably a 19^{th} century phenomenon. For example, the "budget classification in India, for a long time even after Independence, continued to be carried out in the format of the line-item method though it is outdated in several respects, especially making its evaluation difficult (Chakrabarty & Chand, 2016). There are two types of public budgets. 1), 'operating budget' which is planned for a short term or year-to-year basis. In India, this is called 'Annual Financial Statement' (a statement of estimated receipts and expenditures). 2), 'capital budget', which is planned for a longer period (building bridges, or big projects). Wildavsky says: "Whatever else they may be budgets are manifestly political documents. They engage the intense concern of administrators, politicians, leaders of interest groups and citizens interested in the 'who gets what and how much' of governmental allocations".

6.2.1 Line-Item Budgeting

Line-item budgeting is seen as a traditional form of budgeting. It was developed during the early 20th century. The line-item budget covers inputs only, meaning that each line on a paper-sheet has an item or object (for example a wooden chair) on the left side followed by the cost (for example, Rs. 1000) on the right side. The line-item budget rapidly became linked with "governmental honesty, efficiency and less inflexibility". A major disadvantage of the line-budget is that it is not tied to performance. Given its relative simplicity, this type of budget is quite popular among local governments. Year-to-year allocations in line-item budgets differ very little so there is a degree of sluggishness when it comes to assessing how much "should" be spent on health, this and that.

6.2.2 Performance Budgeting

Performance budgeting, also called programme budgeting is a special tool of development administration. Performance budgeting is essentially a technique of presenting government operations in terms of "functions, programmes, activities and projects" (ARC, 1967). It gives administrators a high level of personal responsibility in the use of budgeted resources. Line-item budgeting sees administrators as clerks whereas performance budgeting sees them as managers.

According to Viswanathan(1972), performance budgeting is "a comprehensive operational document, conceived, presented and implemented in terms of programmes, projects and activities, with their financial and physical aspects closely interwoven".

Among the purposes sought to be achieved by performance budgeting, the following are the most important:

i) to link the programming and budgeting together so that it serves as a management tool;

ii) to enable the legislature to exercise control over the executive in a better way;

iii) to help in the formulation and review of policy and plans for integration with budget;

iv) to supply yardsticks of efficiency; and

v) to facilitate effective accounting and audit.

The central points of performance budgeting are: (1) the amount of work done is measured; and (2) the quality (or the results) of that work is measured. These two measures impact on how much money a department will receive in the future (Holzer and Schwester, 2011). Performance budgeting, also called programme budgeting is primarily concerned with efficiency and economy in government. Under it administrative skills tend to dominate agency decision making with budget analysis focused on precision accounting and control. Its focus is on work-cost measurement - - also called unit costs. It is by far the best analytical technique for the assessment of budgetary matters. However, the performance budgeting is not without shortcomings. It does not select the best programme from among all the possible alternatives. It only assesses the programme that is in existence. Departments that over-perform may receive more money, while those that under perform may receive less. Critics argue that using performance measurement as a basis for determining the size of the allocations is counterintuitive. Also, some might argue that measuring performance is inherently problematic, that is designing performance indicators is subjective.

6.2.3 Planning-Programming-Budgeting

Planning-Programming-Budgeting, also known as Planning-Programming-Budgeting System, or PPBS, is a system of resource allocation designed to improve government efficiency and effectiveness by establishing long-range planning goals, analysing the costs and benefits of alternative programmes that would meet these goals, and articulating programmes as budgetary and legislative proposals.

The Planning-Programming-Budgeting Systems (PPBS) was first adopted in the US, in the 1960s by the Kennedy administration, for increasing administrative performance and for improving the policy-making process in the Defence arena. It was fully implemented in the Department of Defence by 1961. It worked so well that PPBS was adopted in all federal departments in 1965 by President Lyndon Johnson.

PPBS is concerned not only with inputs and outputs but also with outcomes (effects) and alternatives. In the model advanced by Charles Schultze, PPBS involves the following:

1) careful identification and examination of goals and objectives in each area of government activity;
2) the analysis of alternatives to find the most effective way of achieving programme objectives at a least cost;
3) forcing agencies to consider programmes as means to defined objectives; and
4) subjecting programmes to competition from alternative and more effective or efficient programmes within the government.

The PPB approach thus aimed at setting goals and strategies, analysing their costs and benefits, focusing on objectives to be achieved, and monitoring through an ongoing review of results. PPB is perhaps, the single most comprehensively "rational" budgeting system (Henry). Although PPBS had a brief and glorious history in the US and a few other countries, it was not without weaknesses. The basic weakness of it was the limitation of the rational decision-making model itself. It was difficult for PPBS administrators to identify all possible goals, programmes and projects. Trying to apply an agreed sum of money on the costs and benefits of social programmes was often found to be impracticable. The difficulty of cost-benefit analysis (CBA) arises from trying to place a monetary value on the intangible benefits of specific programmes. PPBS tried to reverse the role of legislators and administrators. Its administrators controlled much of the policy-making debate, and legislators believed that they were not receiving all the information they needed, and that they had no way to evaluate the data they received. Thus, legislative choices were severely limited by administrators who pre-selected policy choices. The legislature tended to look to the bureaucracy for policy formulation. Also, many of the planning projections in PPBS were of longer duration than the spans of legislators' own terms in office or until the next election. Finally, PPBS overlooked the political strength of legislators or the needs of their constituencies. Taking these factors into account the PPBS was given up by the US federal government in 1971 during the presidency of Richard Nixon.

6.2.4 Zero-Based Budgeting

Zero-based Budgeting (ZBB) is the latest technique which has been developed in the budget process during the 1970s. It is a system of budgeting that requires all spending for each programme and agency to be justified and approved for each new period, that is, each year. ZBB was first adopted in the United States in preparation of the fiscal 1973 budget of the state of Georgia when Jimmy Carter was the Governor of the State

After Jimmy Carter became the President of USA, in 1977, he has adopted ZBB throughout the federal government. In contrast to PPB, ZBB made rapid headway. One seasoned bureaucrat noted, "Never has any management fad so completely taken over this town". According to Henry, ZBB involves "the allocation of resources to agencies on the basis of those agencies periodically reevaluating through intense consultation the need for all of the programs for which the agency is responsible and justifying the continuance or termination of each program in the agency's budget proposal". ZBB is unconventional as it challenges the need for a programme at any funding level. It also rejects the principle of incrementalism, which assumes that next year's budget will begin at or near the funding level of the current year's budget. Its three operational elements are: (i) identification of decision units; (ii) analysis of decision packages, each reflecting a different level of effort for carrying out the work in the decision unit; (iii) ranking of decision packages, in descending order of importance.

Thus, in a ZBB system, all department heads must defend their programmes and consequently their level of funding each year. Rather than earmarking additional funds that are required annually, the department head is required to show how different levels of funding would impact the delivery of a given programme's services.

ZBB is advantageous in that it allows department heads to set priorities, letting the budget makers know where cuts are more acceptable and where increases would be desirable. It makes sense to allow department heads to set these priorities, given that they are in a position to know how best to carry out a department's programmes. ZBB is used primarily when budget costs are out of control.

Advantages of Zero-Based Budgeting

Holzer notes the following advantages of ZBB:

1) Results in efficient allocation of resources, as it is based on needs and benefits.
2) Drives managers to find out cost-effective ways to improve operations.
3) Detects inflated budgets.
4) Useful for service department where the output is difficult to identify.
5) Increases staff motivation by providing greater initiative and responsibility in decision making.
6) Increases communication and coordination within the organisation.
7) Identifies and eliminates wastage and obsolete operations.

Disadvantages of Zero-Based Budgeting

According to Holzer, the following are the disadvantages of ZBB:

1) It is difficult to define decision units and decision packages, as it is very time-consuming and exhaustive.
2) Department heads are forced to justify every detail related to expenditure. Very often the R & D department is threatened whereas the production department benefits.
3) It is necessary to train managers. ZBB should be clearly understood by managers at various levels. Otherwise the reforms cannot be successfully implemented.
4) It is also difficult to administer and communicate the budgeting because more managers are involved in the process.

6.2.5 Gender Budgeting

Gender budgeting means preparation of budgets or their analysis from a gender perspective. Its aim is to deal with issues of gender inequality through budget. Gender Budgeting (GB) is a powerful tool for achieving gender mainstreaming so as to ensure that benefits of development reach women as much as much as men. It is not an accounting exercise alone, but an on-going process of keeping a gender perspective at various steps of policy, budget planning, programme formulation, allocation, implementation, impact / outcome assessment, review and audit. Gender budgeting intends to segregate various items/projects/schemes in the budget to establish their gender differential impacts. The purpose is to translate gender commitments into budgetary commitments, so as to transform gender-centric inequalities. To institutionalise gender budgeting in the country, the setting up of Gender Budgeting Cells (GBC) in all ministries / departments was mandated by the Ministry of Finance in 2007.

6.2.6 Target-Based Budgetting

Target-Based Budgeting (TBB) was embraced by newly-elected US President Ronald Reagan in 1981.Since then it continues to work in tandem with its budgetary successors at all governmental levels in the United States. TBB, also known as Target Budgeting, Fixed-Ceiling Budgeting, and Top-Down Budgeting, is a method of allocating resources to agencies in which agency spending limits or targets are set by the elected chief executive. Under the TBB the elected chief executive sends down to departments targets for the budget that they may request, and then leaves the achievements of departmental goals to the departments' approaches, methods or devices. TBB focuses on the chief executive's sole mission which is sought to be achieved by redirecting resources (that is, inputs) to extract the outputs and outcomes as desired.

Under this system, when revenue declines, the grass-roots governments are mandated by law to balance the books by cutting costs (This is also known by the term 'cutback management'). Examples of short-term cutbacks include reducing temporary employees, deferring maintenance, and postponing equipment purchases. In this way, state agencies are able to manage cutbacks by introducing productivity improvements. TBB appears on the face a good and workable budgeting system in a developed country like the United States. It has also contributed to strengthening communication between public administrators and legislators by providing them with a common budget vocabulary. Moreover, TBB's top-down approach enables the chief executive to exercise a much higher level of budgetary control over the state agencies. But in a developing country like India, TBB may find difficulty of resolving the dilemmas involved in cutting a state agency's budget and then letting that agency's administrators to deal with it.

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) Discuss the major types of Budgeting.

....

....

....

....

....

....

2) What is Zero-based Budgeting? How does it differ from Target based Budgeting?

....

....

....

....

....

....

6.3 APPROACHES TO BUDGETING

There appear to be two principal approaches to budgeting: Incrementalist and Rationalist.

6.3.1 Incremental Approach

Charles Lindblom presented an incremental approach arguing for an examination of decision making by “successive, limited comparison”(Lindblom, 1979). A number of political scientists maintain that the budget is an interest-oriented process in which decisions are made in the context of ‘who pays and who receives.’ The budget represents individual preferences and conflicts. As such, the process for dealing with differing budgetary preferences is not economic but political, according to Wildavsky (1992). Wildavsky underscores the importance of budgetary incrementalism as a function of politics (1992), arguing that only a small number of politically feasible alternatives are considered at any one time, and in a democracy, these policies typically differ only in small increments from previous year’s policies.

Succinctly defined, “incrementalism” is “a theory of the budgetary process proposing that policy makers give only limited consideration to small parts of the budget and arrive at decisions by making marginal adjustments in last year’s budget”. The point is that budget as a whole is not considered; instead, participants make marginal changes on an already existing base. Incremental budgeting ‘focuses upon the current year budget request with emphasis on increases from the current year’ (Lynch, 1979).

6.3.2 Rational Approach

One must also consider budgetary approach from the perspective of the economist. The economic perspective is best captured by V. Lewis (1952), who adds a measure of rationality with regard to cultivating a normative theory of budgeting. Regardless of individual policy preferences as dictated by philosophy, economic principles must remain paramount, and the closest application of this concept is zero-based budgeting (ZBB and PPBS). Much like Lewis, Mikesell (1978) argues that the objective of the budget process is to support public policies and projects where the value exceeds the costs. The budget process should strive to identify and sustain worthwhile government activities, while minimising the wasteful misallocation of scarce resources. For Brubaker (1997), the budgetary process engenders a “common pool” of resources. He embraces a budgetary process that provides a clear expression of public preference, produces net benefits for all, decreases opportunities for rent seeking, and allows people to participate directly. Brubaker advocates public choice measures and incentives created by political institutions for participants in federal budgetary decision making.

6.3.3 Public Administration Perspective

Questions have been raised about the basis on which public money is allocated to some programmes and not others. V.B. Lewis points out that budgeting is essentially a form of applied economics because it involves the allocation of scarce resources among competing alternatives. Viewed broadly, public administration’s emphasis on efficiency and effectiveness is analogous to the economic principles set forth by Lewis (1952), Mike-sell (1978) and others. Frederickson (1990) views social equity as a standard for budgetary preferences and government action in general. Social equity is envisioned as the third pillar of public administration (after economy and efficiency). In that it encompasses elements such as equality in governmental services, and responsiveness to the needs of the citizenry. This is an approach to public administration that has practical applications, is problem oriented, and theoretically sound. Public administrators, according to Frederickson, require a better understanding of fairness and equality in order to balance the needs for economy, efficiency, and social equity.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answer with those given at the end of the Unit.

1) Discuss Rational approach to Budgeting. What are its disadvantages?

....

....

....

....

....

....

2) Discuss Incremental approach to Budgeting. How does it differ from Rational approach to Budgeting?

....

....

....

....

....

6.4 CONCLUSION

It should be noted that while budgetary choices are largely a function of values and principles, efficiency and cost-benefit notions must guide the budget process. From the perspective of some scholars incrementalism and bargaining have an important role to play in the formulation of budget. Second, economy, efficiency and social equity are important criteria in public administration with regard to resource allocation. But, the application of a single criterion by which budgetary decisions are guided is no longer valid. In reality several criteria, often overlapping, tend to influence budgetary decisions. In addition, the weights of political influence and bureaucratic perceptions have a role to play. Harold Lasswell's classic statement, 'who gets what, when and how' drives home the point on the dynamics of the budgetary decisions.

6.5 GLOSSARY

Operating budget: Budget for a short period or for one year.

Incrementalism: Belief in or advocacy of change by degrees or increments.

Capital goods: Goods that are used in producing other goods.

Social equity: Equality in provisions of government services and responsiveness to the needs of citizens.

6.6 REFERENCES

First Administrative Reforms Commission. (1967). *Report of the Study Team on Financial Administration.* New Delhi, India: Manager of Publications.

Brubaker, E. (1997). The Tragedy of the Public Budgetary Commons. *The Independent Review.* 1(3), 353-370.

Chakrabarty, B. & Chand, P. (2016). *Indian Administration.* New Delhi, India: Sage.

Frederickson, H.G. (1990). Public Administration and Social Equity. *Public Administration Review.* 50 (2).

Henry, N. (2012). *Public Administration and Public Affairs.* New Delhi, India: PHI.

Holzer, M. & Schwester, R.W. (2011). *Public Administration: An Introduction.* New Delhi, India: PHI.

Lewis, V. (1952). Toward a Theory of Budgeting. *Public Administrative Review.* 12.

Lindblom, C. (1979). Still Muddling, Not Yet Through. *Public Administration Review.* 39.

Lynch, T.D. (1995). *Public Budgeting in America.* New Jersey: Prentice Hall.

Mikesell, J.L. (1978). Government Decisions in Budgeting and Taxing. *Public Administrative Review.* 38.

McCaffery, J.L. (1987). The Development of Public Budgeting in the United States. In Chandler, R.C. (Ed.). *Centennial History of the American Administrative State.* New York: Macmillan.

Schultze, C. (1968). *Politics and Economics of Public Spending.* Washington: Brookings Institution.

Viswanathan, S.S. (1972). *Performance Budgeting in Government.* New Delhi, India: Indian Institute of Public Administration.

Wildavsky, A. (1992). Political Implications of Budget Reform: A Retrospective. *Public Administrative Review.* 52(6): 594-599.

6.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points:
   - Line-item budgeting
   - Performance budgeting
   - Planning-programming-budgeting
   - Zero Based budgeting
   - Gender Based budgeting
2) Your Answer should include the following:
   - Concept of Zero-based budgeting
   - Advantages and disadvantages of Zero Based Budgeting
   - Concept of Target base budgeting

Check Your Progress 2

Your answer should include the following points:

1) Your Answer should include the following:
   - Concept of Rational Approach
   - Disadvantages of Rational Approach
2) Your Answer should include the following:
   - Concept of Incremental Approach
   - Difference between Incremental Approach and Rational Approach